MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2015/2016

BFN 2044 – BANK MANAGEMENT
(All sections / Groups)

2 JUNE 2016
9.00 a.m. - 11.00 a.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of FOUR (4) pages with 4 Questions only.
2. Answer all questions.
3. Please print all your answers in the Answer Booklet provided.

STRUCTURED QUESTIONS (25 Marks each)

Candidates MUST answer ALL FOUR questions.

Question 1 (25 Marks)

(a) As a bank manager, you are given the following information:

INFINITY BANK (RM Million)			
Assets		**Liabilities and Equity**	
Rate Sensitive	200 (11%)	Rate Sensitive	300 (7%)
Non-rate Sensitive	400 (12%)	Non-rate Sensitive	300 (6%)
Non-earning	100	Equity	100
Total Assets	**700**	**Total Liabilities and Equity**	**700**

(i) What are the Gap, Net Interest Income and Net Interest Margin for this bank?

(10 marks)

(ii) How much will the Net Interest Income and Net Interest Margin change if interest rates fall by 400 basis points?

(5 marks)

(iii) What would be your recommendation with regards to changes in the portfolio composition if interest rates are expected to rise?

(5 marks)

(b) Selected balance sheet and income statement data for Profin Bank are given as follows:

Return on Asset (ROA) = 0.76%
Total Assets = RM1.65 billion
Equity Capital = RM240 million

What is the Return on Equity (ROE) for this bank and what will happen to its ROE if its ROA increases by 50%?

(5 marks)

Continued….

Question 2 (25 Marks)

(a) What is the return on assets (ROA)? Why is ROA important to key competitors in the banking sector?

(3 marks)

(b) A bank estimates that its total revenues will amount to RM160 million and its total expenses (including taxes) will equal RM105 million this year. Its liabilities total RM4,960 million while its equity capital amounts to RM60 million. What is the bank's return on assets (ROA)? Is this ROA high or low if other banks are having a 0.80 percent ROA?

(6 marks)

(c) A government bond currently carries a yield to maturity of 6 percent and a market price of RM1,168.49. If the bond promises to pay RM100 in interest annually for five years, what is its current duration?

(12 marks)

(d) Based on result in Question (c), if interest rates suddenly rise from 6 percent to 9 percent, what percentage change should occur in the bonds' market price if the bank holds RM15 million in government bonds?

(4 marks)

Question 3 (25 Marks)

(a) What maturity strategies do financial firms employ in managing their portfolios? Explain each of these strategies.

(15 marks)

Continued....

(b) ABC Bank estimates that over the next 24 hours the following cash inflows and outflows will occur (all figures in millions of Ringgit):

	RM Million
Deposit withdrawals	100
Deposit inflows	95
Scheduled loan repayments	90
Acceptable loan requests	60
Borrowings from the money market	80
Sales of bank assets	40
Stockholder dividend payments	150
Revenues from sale of nondeposit services	95
Repayments of bank borrowings	60
Operating expenses	50

What is this bank's projected net liquidity position in the next 24 hours? From what sources can the bank cover its liquidity needs?

(10 marks)

<u>Question 4 (25 Marks)</u>

(a) As a bank manager, you are required to explain to junior bank executives about loan review. What is a loan review? How should a loan review be conducted?

(11 marks)

Continued....

(b) As part of a loan application assessment, banks have to assess their customer's business. Based on the data given in the following table, please calculate the expenses control ratio for this customer (All in RM million)

Business Assets		**Annual Revenue and Expense Items**	
Cash account	60	Net sales	600
Accounts receivable	155	Cost of goods sold	445
Inventories	128	Wages and salaries	52
Fixed assets	286	Interest expense	28
Miscellaneous assets	96	Overhead expenses	29
	725	Depreciation expenses	12
Liabilities and Equity		Selling, administrative, and other expenses	28
Short-term debt:	108	Before-tax net income	6
Accounts payable	117*	Taxes owed	1
Notes payable	325*	After-tax net income	5
Long-term debt (bonds)	15		
Equity capital	160		
	725		

*Annual principal payments on bonds and notes payable total RM55 million. The firm's marginal tax rate is 35 percent.

(14 marks)

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